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¶1. (U) SUMMARY: On February 5, the Greek press reported that the sixth tender issued over the course of the past 15 years for the privatization of Olympic Airlines (OA) had once again failed, due to lack of conforming bids. Finance Minister Papathanassiou announced the development, together with a plea for Greek business interests to purchase the ailing airline. Shortly thereafter, the press quoted Marfin Investment Group (MIG) Chairman Andreas Vgenopoulis indicating MIG's interest in purchasing all three sub-elements of the proposed successor to Olympic and promising to be open to "re-nationalizing" the firm after a few years. Immediately prior to this news hitting the press, Athens ECON received a call from a US-based investor seeking Post's attention to the tender and asking that we weigh in with the GOG to ensure that the ongoing process was a transparent one

¶2. (SBU) SUMMARY CONTINUED: To follow up on these developments Econoff met February 9 with Michail Kefalogiannis, the Senior Advisor to incoming Development Minister Hatzigakis. Kefalogiannis is the project manager for Olympic Airlines investment matters. Kefalogiannis explained the process that had been agreed with the European Commission for Olympic's privatization. Kefalogiannis lamented the poor timing of the latest attempt given the global financial crisis. But he said the GOG was committed to follow through with the process, which he gave a "fifty-fifty" chance of success this year. END SUMMARY.

The Structure

¶3. (SBU) Kefalogiannis reviewed the agreement with the EC for the privatization of OA. As reftel indicated, the GOG agreed to create three new operations out of OA -- air operations, ground handling and the "technical base" -- which would be purchased by a private company or companies. OA itself would be liquidated and the remaining OA employees would receive a "substantial" severance pay, as well as the opportunity to be re-hired by OA's successor. According to Kefalogiannis, the core assets of the new air company, Pantheon, would consist of the Olympic name, the Olympic rings logo, and key landing slots in seven hub airports worldwide (including Frankfurt, Heathrow, JFK, and...Bucharest?). So-called optional assets that would remain within OA but be available to the eventual Pantheon owner if desired, include any or all of the 18 remaining airplanes owned by OA, most of which are turboprops used to service the Greek islands. These optional assets were to be considered separately from the core assets which were the main focus of the flight operations portion of the recent tender, but, he said, bidders could make separate offers for the planes. In addition, the GOG will capitalize Pantheon in the amount of 60 million euro, which the winning bidder can agree to accept or not. (Comment: presumably accepting the shares means accepting GOG ownership rights as well).

The Process

¶4. (SBU) According to Kefalogiannis, the GOG had agreed with the EC on a process that would to the maximum extent possible protect the OA privatization from actual or even apparent political influence. Accordingly, representatives of the EC were "present throughout." The GOG provided the EC with a list of firms to act as international advisors to the privatization tender. The lineup eventually chosen by the EC included London-based Lazard Freres in the lead, with a group of private banks including Greek-based Alfabank, Emboriki Bank, and the National Bank of Greece, as well as several international law firms. Auditing was done by Price Waterhouse Corp. and the valuation of OA assets was undertaken by Grant Thorton, LLC, a US-based consulting firm. Kefalogiannis said that Grant Thorton presented its valuation to the advisors "without the Greek government in the room." The valuation for the three separate components was: 45.7 million euro (MEURO) for the flight operations, 44.9 meuro for the ground handling, and 17 meuro for the technical core. Kefalogiannis noted that the highest bid for the air operations was only 24.5 meuro.

¶5. (SBU) As for the bids, they too were presented at first only to the advisory group, in London, on January 30. The advisors worked through the weekend to analyze the bids and prepare a report for the GOG. On February 4, the GOG's Inter-ministerial Privatization Committee met to review the bidding and determined, according to Kefalogiannis based on the report from the advisors, that none of the bids were compliant with the tender. None of the bids reached the

valuation levels, and certain of them were also judged non-compliant on technical grounds (e.g. one did not focus on the core assets of the OA flight operations; some did not have proof of funding).

Next Steps

¶6. (SBU) Kefalogiannis said that the GOG now hopes to enter a process of direct negotiations with interested investors, which, he said, was envisaged in the Greek privatization law, as well as in European Community regulations. The GOG will present the case for direct negotiations to the EC later this week and will refrain from discussing directly with interested investors until it has an agreement with the EC that this is the way to proceed.

¶7. (SBU) On February 5, as the GOG announced the failure of the tender it called for Greek investors to step up to the plate. Almost immediately, Marfin Investment Group (MIG) Chairman Andreas Vgenopoulis indicated MIG's interest in purchasing all three sub-elements of the proposed successor to Olympic and investing up to 250 meuro in it over the next two years. Somewhat bafflingly, the press reported that he also promised to be "open to re-nationalizing" the firm after a few years. Asked how he interprets MIG's reported statements, Kefalogiannis said that MIG is interested in making money, and he saw the statement on re-nationalization as a form of insurance against a hostile re-nationalization in the event that left-leaning opposition party PASOK gains power. He said that the GOG hopes to speak with MIG next week, together with the advisory group, if the EC agrees on direct negotiations. Asked whether any of the failed bidders would have similar access, Kefalogiannis replied that the GOG would welcome such interest) all they had to do was express it.

¶8. (SBU) COMMENT: It comes as no great surprise that the GOG failed to privatized Olympic on its sixth try at a tender. This is a political hot potato that no government wants to handle, particularly in today's dire economic situation (and given the ruling party's one-seat majority in

the parliament), as Kefalogiannis alluded. Notwithstanding the apparently assiduous attempts to make this a transparent deal, the never-too-reliable Greek press's reporting on the story leaves the impression of backroom deals being made. For example, Kefalogiannis told us that the Inter-Ministerial Privatization Committee would meet Feb. 11 to discuss next steps, in consultation with the EC. Yet the GOG announced to the press Feb. 11 that it is entering into direct negotiations with MIG immediately. Given the stiff economic and political headwinds, we share Kefalogiannis' assessment that this effort has at best a 50-50 shot at success this year.

SPECKHARD